

Message Text

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PAGE 01 STATE 008934

64

ORIGIN TRSE-00

INFO OCT-01 ARA-06 EUR-12 ISO-00 EB-07 INT-05 AGR-05 SP-02

AID-05 NSC-05 RSC-01 CIEP-01 SS-15 STR-01 OMB-01

CEA-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-02

OPIC-03 LAB-04 SIL-01 L-02 IO-10 H-01 /099 R

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ARA/ECP: WKNEPPER

ARA/NC: FDEVINE

EB/IFD:PHBOEKER

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FM SECSTATE WASHDC

TO AMEMBASSY ASUNCION

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY MONTEVIDEO

AMEMBASSY OTTAWA

AMEMBASSY PORT OF SPAIN

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY BUENOS AIRES

AMEMBASSY CARACAS

AMEMBASSY GUATEMALA

AMEMBASSY KINGSTON

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY MANAGUA

AMEMBASSY MEXICO

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AMEMBASSY PORT AU PRINCE

AMEMBASSY QUITO

AMEMBASSY SAN JOSE

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PAGE 02 STATE 008934

AMEMBASSY SAN SALVADOR

AMEMBASSY SANTIAGO
AMEMBASSY SANTO DOMINGO
AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS:EFIN, IDB, VE

SUBJECT: PROPOSED VENEZUELAN TRUST FUND IN IDB

1. SUMMARY - VENEZUELA AND IDB ARE IN FINAL STAGES OF NEGOTIATING TRUST FUND AGREEMENT WHEREBY IDB WOULD ADMINISTER 500 MILLION DOLLARS (COMPOSED OF 400 MILLION DOLLARS AND BS 430 MILLION) FOR PURPOSES OF MAKING LOANS AND EQUITY INVESTMENTS IN LATIN AMERICA TO DEVELOP NATURAL RESOURCES, FINANCE WORKING CAPITAL, FINANCE AGRICULTURE AND AGRO-INDUSTRY, COMPLEMENT IDB EXPORT PROMOTION PROGRAM AND PROMOTE ECONOMIC INTEGRATION. WHILE USG SUPPORTS EFFORT OF IDB TO AUGMENT RESOURCES AND WELCOMES GOV PARTICIPATION AS SIGNIFICANT IDB DONOR, TRUST FUND, AS PRESENTLY CONSTITUTED, MAY PRESENT PROBLEMS FOR FUTURE EXECUTIVE BRANCH FUNDING REQUESTS TO CONGRESS FOR IDB. ACTION POSTS ONLY ARE REQUESTED TO BRING U.S. CONCERNS TO ATTENTION OF HOST GOVERNMENTS AND REPORT RESPONSE. END SUMMARY.

2. AT NOV 25 MEETING OF IDB COMMITTEE OF BOARD OF GOVERNORS U.S. REPRESENTATIVE EXPRESSED PLEASURE WITH RAPID PROGRESS AND PROSPECTIVE PROMPT CONCLUSION OF ARRANGEMENTS FOR CREATION OF VENEZUELAN TRUST FUND TO BE ADMINISTERED BY IDB. HE THEN REFERRED TO SEVERAL FACTORS THAT U.S. BELIEVES SHOULD BE TAKEN INTO ACCOUNT. FIRST, U.S. SEES FUND AS ESSENTIALLY MATTER CONCERNING GOV AS SUPPLIER OF RESOURCES AND BANK BORROWING MEMBERS AS USERS. SECOND,

HE COMMENTED THAT CONSIDERING POSSIBLE EFFECT ON U.S. (FUNDING REQUESTS IN THE NEXT REPLENISHMENT, ETC.) IT IS IMPORTANT TO ASSURE THAT PROVISIONS GOVERNING GOV FUND DO NOT WEAKEN UPCOMING REPLENISHMENT EXERCISE AND NOTEWORTHY THAT GOV INITIATIVE WAS ANNOUNCED IN TERMS OF FUNDS

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PAGE 03 STATE 008934

FOR LESS DEVELOPED COUNTRIES MOST IN NEED OF AID. THIRD, HE OBSERVED THAT ADMINISTRATIVE COSTS SHOULD BE ABSORBED BY INCOME OF TRUST FUND AND NOT BURDEN IDB ORDINARY BUDGET. FINALLY, HE EXPRESSED SATISFACTION IN PRINCIPLE WITH FACT FUND WOULD ENABLE BANK TO ACQUIRE EQUITY SHARES IN COMPANIES. HE EMPHASIZED LONG-TIME U.S. SUPPORT FOR THIS CONCEPT (CREATION OF INTERNATIONAL FINANCE CORPORATION) AND SAID THAT IDB UTILIZATION OF MECHANISM TO TAKE

SMALL MINORITY PARTICIPATIONS TO PROVIDE INCENTIVES TO OTHER INVESTORS WOULD BE AN IMPORTANT CONTRIBUTION.

3. YOU MAY DRAW SELECTIVELY ON THE FOLLOWING TWO PARAGRAPHS IN YOUR DISCUSSIONS WITH HOST GOVERNMENT OFFICIALS; U.S. CANNOT BE SOLE SOURCE OF CONVERTIBLE CONCESSIONAL RESOURCES TO MEET GREAT L.A. NEED AND WE WELCOME GOV PARTICIPATION. HOWEVER, WE BELIEVE THAT IMPLEMENTATION OF TRUST FUND AS PRESENTLY CONCEIVED MIGHT HAVE ADVERSE EFFECT ON WILLINGNESS OF U.S. CONGRESS TO APPROVE FUTURE APPROPRIATIONS OF FUNDS FOR IDB. PRIMARY DIFFICULTY IS GOV INSISTENCE ON 8 PERCENT RETURN FROM TRUST FUND WHICH WOULD LIKELY REQUIRE IDB LENDING RATE OF 8.5 TO 9.5 PERCENT. SPECIAL CONCERN WITH COMMERCIAL CHARACTER OF TRUST FUND IS THAT U.S. CONGRESS COULD SEE FUND AS PRECEDENT FOR U.S. IN SETTING RATIO BETWEEN NEAR COMMERCIAL AND CONCESSIONAL FUNDING. IN 1975 WE WILL BE REQUESTING AUTHORIZATION FOR U.S. CONTRIBUTIONS TO NEW IDB REPLENISHMENT AND HAVE IN MIND RATIO OF ABOUT 2 DOLLARS ORDINARY CAPITAL TO 1 DOLLAR FSO. WE UNDERSTAND GOV PROPOSING TO APPROPRIATE AND MAKE AVAILABLE 20 MILLION DOLLARS ANNUALLY FOR 5 YEARS FUNDS ALREADY CONTRIBUTED IN BOLIVARS TO FSO. U.S. VIEWS THIS AS INADEQUATE COUNTERWEIGHT TO TRUST FUND SINCE CONCESSIONARY PORTION WOULD NOT CONSIST OF NEW RESOURCES AND HARD TO SOFT TERM MIX WOULD STILL BE UNSATISFACTORY 5 TO 1 RATIO. WE HAVE URGED AND ARE CONTINUING TO URGE GOV TO MAKE AVAILABLE SIGNIFICANT AMOUNT OF TRULY CONCESSIONARY FUNDS TO IDB IN ADDITION TO PROPOSED TRUST FUND. GOV HAS ADVISED US THAT TRUST FUND DERIVING RESOURCES FROM VENEZUELAN INVESTMENT FUND CAN NOT BY ITS NATURE PROVIDE CONCESSIONAL FUNDS. WE WOULD HOPE THAT GOV WOULD COMPLEMENT TRUST FUND WITH CONCESSIONAL MONIES FROM OTHER SOURCES IN SIMULTANEOUS ANNOUNCEMENT. LIMITED OFFICIAL USE

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PAGE 04 STATE 008934

MENT, AS WELL AS PROVIDING SUBSTANTIAL CONVERTIBLE CURRENCY CONTRIBUTION TO FSO IN NEXT REPLENISHMENT.

4. TRUST FUND PROVISIONS FOR EQUITY INVESTMENTS SEEN AS SECOND MAJOR PROBLEM AREA. PARTICULARLY OBJECTIONABLE IS POTENTIAL FOR ACQUIRING NON-LA SHARES BECAUSE SUCH PURCHASES WOULD PROVIDE NO NEW REAL RESOURCES FOR DEVELOPMENT.

ALSO BACKGROUND OF NEGOTIATIONS SUGGESTS GOV INTERESTED IN CAPITAL INPUTS TO COMPLEMENT VENEZUELA PRIVATE AND PUBLIC FOREIGN INVESTMENTS (E.G., POSSIBLE PROJECTS INCLUDE REFINERY IN COSTA RICA, AND PULP MILL IN HONDURAS). WE HAVE CONSULTED WITH IDB AND HOPE THAT IN PREPARATION OF IMPLEMENTING REGULATIONS GOV WILL COOPERATE WITH IDB TO ASSURE

THAT TRUST FUND INVESTMENTS WILL CONSTITUTE ONLY SMALL EQUITY POSITIONS (AS IN IFC), WILL AVOID CONCENTRATION IN JUST A FEW COUNTRIES WILL HELP TO MAXIMIZE NEW CAPITAL INFLOWS, AND WILL ENCOURAGE RATHER THAN SUBSTITUTE FOR PRIVATE INVESTMENTS.

5. ACTION POSTS ARE REQUESTED TO BRING TO ATTENTION OF HOST GOVERNMENTS U.S. COMMENTS ON VENEZUELAN TRUST FUND PROPOSAL AS OUTLINED PARAGRAPH 2 ABOVE AND ASK THAT THEY INSTRUCT THEIR EXECUTIVE DIRECTORS IN THE IDB TO SUPPORT U.S. POSITION WHERE POSSIBLE. YOU MAY CITE TRINIDAD AND TOBAGO INITIATIVE IN CARIBBEAN DEVELOPMENT BANK AS LAUDABLE EXAMPLE THAT HOPEFULLY GOV MIGHT FOLLOW. TRINIDAD HAS GIVEN 10 MILLION DOLLARS LOAN ON 2-3 PERCENT, 25 YEAR TERMS. WOULD APPRECIATE REPORT ON GOVERNMENT'S POSITIONS AND RESPONSES PRIOR TO IDB BOARD DISCUSSION OF PROPOSAL ON JANUARY 15. KISSINGER

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